

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7143

BILL NUMBER: HB 1789

NOTE PREPARED: Feb 17, 2003

BILL AMENDED: Feb 17, 2003

SUBJECT: Indiana Technology Talent Fund.

FIRST AUTHOR: Rep. Hasler

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) The bill creates the State Technology Advancement and Retention (STAR) Account to advance technology and retain graduates in Indiana. The bill provides for a tax on the sale of tangible personal property by vending machine operators and uses the proceeds of the tax to fund STAR. The bill requires a vending machine owner to place an identification sticker on the face of a vending machine. It provides that, if an owner intentionally fails to display an identification sticker on a vending machine, the Department of State Revenue ("Department") may: (1) seize and confiscate the vending machine; and (2) fine the owner not more than \$1,000 and not less than \$2,000. The bill requires vending machine operators and owners to register with the Department. The programs involved include school to work tax credit, internship tax credit, funding for the Statewide Partnership Fund, technology grants, minority training grants, apprenticeship grants, back home in Indiana grants, scientific instrument project, clean manufacturing income tax credit, clean coal technology research center, and grants for the smart Indiana school smart partnership.

Effective Date: (Amended) Upon passage; July 1, 2003.

Explanation of State Expenditures: (Revised) *STAR Account and Spending of STAR Account Funds:* The bill establishes the State Technology Advancement and Retention (STAR) Account within the state General Fund. The STAR Account consists of Sales Tax revenue designated by the Department of State Revenue (DOR) as increased collections from vending machine items under a formula established by the bill (see below under *Explanation of State Revenues*). The money in the account does not revert to the state General Fund. Under the bill, the money in the STAR Account is annually appropriated in the following percentages:

- (1) 23% to the Certified School to Career Program Payroll Credit.
- (2) 9% to the Certified Internship Program Payroll Credit.
- (3) 25% to the Indiana Economic Development Partnership Fund. (Note: the bill establishes percentage distributions of this money to each of the five purposes of the Fund.)

- (4) 9% to Minority Training Program Grants.
- (5) 9% to Technology Apprenticeship Grants.
- (6) 10% to the Back Home in Indiana Program.
- (7) 5% to the Indiana Schools Smart Partnership.
- (8) 5% to the Scientific Instrument Project.
- (9) 3% to the Clean Manufacturing Income Tax Credit.
- (10) 2% to the Coal Technology Research Fund.

Certified School to Career Programs: The bill authorizes the Department of Workforce Development (DWD), in consultation with the Department of Education (DOE), to certify school to career programs that provide job training, classroom instruction, and employment to secondary and postsecondary students. These students must be 16 to 24 years of age, and participation in the school to career program must be a part of the students secondary or postsecondary school education. The bill allows the DWD to impose an application fee on entities applying to sponsor a certified program. The fee is to be used by the DWD to defray the costs of processing the application and investigating the applicant.

Certified Internship Programs: The bill authorizes the DWD, in consultation with the DOE, to certify internship programs operated by public and private institutions of higher learning for part-time and full-time students. A certified internship program must integrate curriculum with career internships, place students in career internships with employers providing supervision and payroll and personnel services the same as for regular part-time employees.

Indiana Economic Development Partnership Fund: This fund exists under current statute to provide grants for certain economic development initiatives. The bill shifts administration of grant application and approval procedures to the Indiana Department of Commerce under agreement with the State Budget Agency (SBA). (The SBA currently fulfills these functions.) The bill also requires the SBA to contract with Purdue University for staff support in providing grants relating to the expansion of the Purdue Technical Assistance Program the Purdue Rural/Community Economic Development Regional Outreach Program. The bill expands certain purposes for grants from this fund. A non-code provision of the bill requires that during the 2003-05 biennium grants of \$200,000 be made to the East Central Indiana Technology Transfer Program administered by Ball State University and the Southwestern Indiana Technology Transfer Program administered by Southern Indiana University. The grants are to be used in establishing and operating technology talent programs. This bill does not contain an appropriation for these grants.

Minority Training Program Grants: The State Human Resource Investment Council is required to develop a program to provide grants to minority training programs for minority students. The grants must be used for programs to enhance training in technology advancement for minority students and for generalized training programs for minority students.

Back Home in Indiana Program: The State Human Resource Investment Council is required to develop a program to provide for grants or contracts to develop the Back Home in Indiana Program. The Program must track graduates of Indiana public and private colleges and universities; and periodically contact graduates regarding job opportunities in Indiana.

Technology Apprenticeship Grants: The bill requires the Department of Education (DOE), in consultation with the Department of Labor, to develop a grant program to provide grants for apprenticeships in the area of technology. The bill requires the agencies to develop standards for the issuance of grants to business and unions that are working to enhance the apprenticeship skills of apprentices.

Smart Partnership Grants: The bill requires the Department of Workforce Development (DWD) to establish guidelines for making grants to the Indiana Schools Smart Partnership. The Partnership is established to create partnerships between school and local businesses to make math and science relevant to students.

Coal Technology Research Fund: This Fund exists under current statute to provide money for the Center for Coal Technology Research. Under current statute the State Budget Agency administers the Fund.

It is important to note that the bill allows expenses for administration of the STAR Account, and of programs funded from the STAR Account, to be paid from the STAR Account. However, these payments may not exceed 2%.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new tax credits. This bill would also require the DOR to develop new reporting procedures for vending machine operators. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Clean Manufacturing: The bill would create a six-member Clean Manufacturing Income Tax Credit Board to approve tax credit awards and certify creditable clean manufacturing expenditures. The Board consists of the directors of the following agencies (or their designees): The Indiana Clean Manufacturing Technology and Safe Materials Institute; Department of Environmental Management; Department of Commerce; State Budget Agency; Department of State Revenue; and Clean Manufacturing Technology Board. Each Board member would be eligible for reimbursement for travel and expenses directly related with a member's official duties. In addition, the bill requires the Institute to assist the Board in carrying out its duties. Costs relating to this requirement presumably could be covered by the administrative fee that bill authorizes the Institute to set for processing tax credit applications.

The bill also requires the Legislative Council to assign the tax credit for audit and evaluation during 2007. Any expense relating to this evaluation presumably could be absorbed within the Legislative Services Agency's budget.

Explanation of State Revenues: (Revised) *Vending Machine Sales:* Beginning January 1, 2004, the bill will change the base used in calculating the Sales Tax owed by vending machine operators. Under current law, the state Sales Tax is assessed on 6% of the retail price of the item sold. This bill would instead assess a vending machine operator's Sales Tax liability based on 120% of the net invoice price of the product sold through the vending machine multiplied by the 6% Sales Tax rate. (The bill does not apply to cigarettes sold through vending machines).

The bill also changes the distribution of Sales Tax revenue received from vending machine sales. Under current law, revenue from the Sales Tax on vending machine sales is deposited, as is all Sales Tax revenue, in the: Property Tax Replacement Fund (50%), the State General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%). Revenue from the Sales Tax on vending machines would continue be distributed as under current law; however, under this bill, any Sales Tax revenue received from vending machine operators that *exceeds* the Sales Tax collections received from vending machine sales during CY 2002, as adjusted yearly for inflation, would be deposited into the State Technology Advancement and Retention (STAR) Account (see above under *Explanation of State Expenditures*).

Based on the assumption that the retailer markup of the price of goods sold through vending machines is

greater than 20%, it is presumed that this provision will reduce state Sales Tax revenue. If Sales Tax revenue declines, no revenue will be allocated to the STAR Account. The amount of Sales Tax revenue generated from this change is currently unknown and is contingent upon a variety of factors including, the retail mark-up on vended goods and the any impact the bill has on the current compliance level of vending machine operators.

Background Information: As a point of reference, based on adjusted state and federal data, it is estimated that the current method of collecting the Sales Tax on the retail price of goods sold through vending machines will generate a minimum of approximately \$7.4 M in CY 2004. This Sales Tax estimate is presumed to be conservative since some business entities which engage in vending machine operations, such as gas stations and restaurants, report to the Department of State Revenue under business classifications that prevent the specific identification of vending machine sales.

Payroll Tax Credits: The Certified School to Career Program Payroll Credit is a nonrefundable credit equal to 20% of certain payroll expenditures of an employer to a participant in a *certified school to career program* (see above under *Explanation of State Expenditures*). For each participant, the credit is limited to the first 400 hours of payroll expenditures per year the participant is in the program for up to two years. The credit is effective for payroll expenditures beginning July 1, 2004.

The Certified Internship Program Payroll Credit is a refundable credit equal to 20% of the wages actually paid by an employer to a student participating in a *certified internship program* (see above under *Explanation of State Expenditures*). The taxpayer must employ at least one individual other than the student intern to qualify for the credit. The credit is effective beginning in tax year 2004.

The number of employers that may incur creditable payroll costs for student interns or participants in school to career programs is contingent upon a number of factors, including employer utilization, student interest, and current and future capacity of applicable organizations to operate certified programs. However, the bill limits the aggregate amount of each tax credit that may be provided to qualified employers each fiscal year. For each tax credit the limit is equal to the percentage of the amount annually designated to pay the cost of the credits from the STAR Account (see above under *Explanation of State Expenditures*). Annually the DOR must approve applications for each tax credit in the chronological order in which the applications are filed until the maximum aggregate credit level is met. Subsequent applications would be disapproved for that fiscal year.

Each credit may be claimed by individual and corporate taxpayers against their Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax liabilities. The Certified School to Career Program Payroll Credit is nonrefundable. In contrast, the Certified Internship Program Payroll Credit is refundable. For each credit, unused credits maybe carried forward to subsequent taxable years. Neither credit may be carried back. If an employer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

Clean Manufacturing Income Tax Credit: The bill establishes two nonrefundable AGI Tax credits for clean manufacturing expenses incurred by individual and corporate taxpayers operating at least one manufacturing facility in Indiana after January 1, 2004. The bill limits the aggregate credits allowed per fiscal year to \$600,000 beginning in FY 2004. Thus, if the annual amount of vending machine sales tax revenue designated to the STAR Account by the Department of State Revenue is less than \$20 M (which is possible under the current structure), the tax credit would affect AGI Tax revenue to the state General Fund and the Property

Tax Replacement Fund. (The bill requires 3% of the revenue designated annually to the STAR Account to be used to pay the cost of the clean manufacturing credits.)

The Material Substitution Expense Credit is equal to 30% of the certified additional cost of purchasing a qualified material that is substituted for a toxic material. The Clean Manufacturing Investment Credit is equal to based on 30% of the certified cost of the qualified clean manufacturing investment multiplied by either the certified percentage by which a toxic material or generation of an environmental waste is reduced by means of the clean manufacturing investment. The bill limits the tax credit allowed in a taxable year to \$12,000 per taxpayer. The bill limits the aggregate credits allowed in a state fiscal year to \$600,000. Annually the Clean Manufacturing Income Tax Credit Board must approve applications for each tax credit in the chronological order in which the applications are filed until the maximum aggregate credit level is met. The tax credits are non refundable, and taxpayers are not entitled to carry back unused credits. The bill allows a taxpayer to carry forward unused tax credits for up to two subsequent taxable years. If a taxpayer is a pass through entity and does not have a tax liability, the credits could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

Revenue from the AGI Tax on corporations is deposited in the state General Fund. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Penalty Provision: The bill requires vending machine operators to display certain identification information on the each vending machine. An operator who is found to have intentionally failed to display the information is subject to a fine ranging from \$1,000 to \$2,000.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Education; Department of Workforce Development; Indiana Department of Commerce; Department of Labor; State Human Resource Investment Council; Indiana Department of Environmental Management; Indiana Clean Manufacturing Technology and Safe Materials Institute.

Local Agencies Affected:

Information Sources: U.S. Census Bureau, *1997 Economic Census*; Department of State Revenue

Fiscal Analyst: Jim Landers, 317-232-9869; John Parkey 317-232-9854